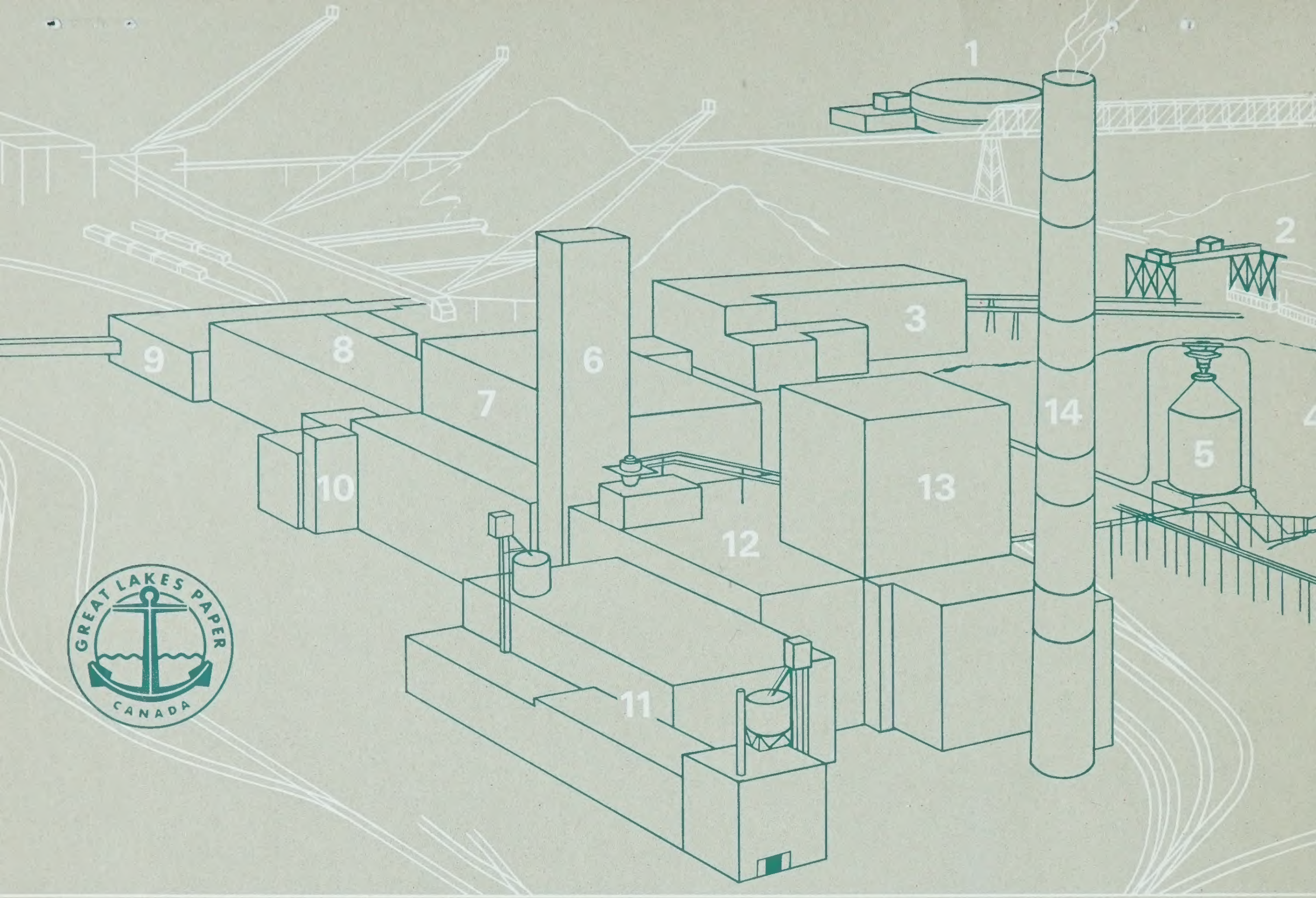
Great Lakes Paper 1966

ANNUAL REPORT



OUR GREAT NEW KRAFT PULP MILL: ANNUAL CAPACITY 200,000 TONS

This simplified sketch of the front cover picture shows the main features of our new kraft pulp mill, identified by green outlines and white numbers. The white outlines are stackers and log storage piles for newsprint and sulphite pulp production, not connected with kraft pulp. Rail lines and cars are also in white. Numbers begin at the top of the sketch, as follows.

(1) New water treatment plant supplying kraft mill with 30 million gallons a day; intake pump house on Kam River bank not visible. (2) Pulpwood unloader and conveyor to new mill's woodroom. (3) Woodroom where logs are made into small chips. (4) Two chip storage piles, capacity of 80,000 cords. (5) Chip silo from which chips are conveyed to the digester.

(6) Continuous chemical digester, 160 feet high, where chips are processed into kraft pulp. (7) Bleaching plant for treating pulp from the digester. (8) Machine room for sheeting bleached pulp, shown in picture on page 13.

(9) Baling and shipping building, for shipment by rail, with conveyor at left to new dock warehouse (not visible) for shipments by water.

(10) Research laboratory and offices. (11) Lime kiln and causticizing plant. (12) Building to house future turbine power generator. (13) Recovery boiler, for reclaiming chemicals used in kraft pulp processing. (14) Exhaust stack, 300 feet high, this height being needed to provide adequate draft for the recovery boiler and to carry off chemical odors.

The new mill has 13 buildings with floor area of over eight acres and annual capacity of 200,000 tons. It has given us important market diversification, described on page 2, and improved our newsprint quality. Construction began in August 1964 and was completed by April 1966 at an over-all cost of approximately $36.5 million. Further information about the mill and its important place in our enterprise is given on inside pages.

Five Highlights of '66

1. Our kraft pulp mill (see page opposite) began operation in April 1966. We entered the kraft pulp market with 1966 sales of 81,463 tons and added kraft to our newsprint content for better quality.

2. Both our newsprint and total shipments to customers in 1966 were at new highs and our total dollar sales of $63.9 million marked another new high: an increase of 36.2 percent over 1965.

3. Despite these sales our 1966 net profit of $5.5 million was off 3.9 percent, mainly because completion of the kraft pulp mill increased interest and depreciation to $7.1 million, up 80.5 percent.

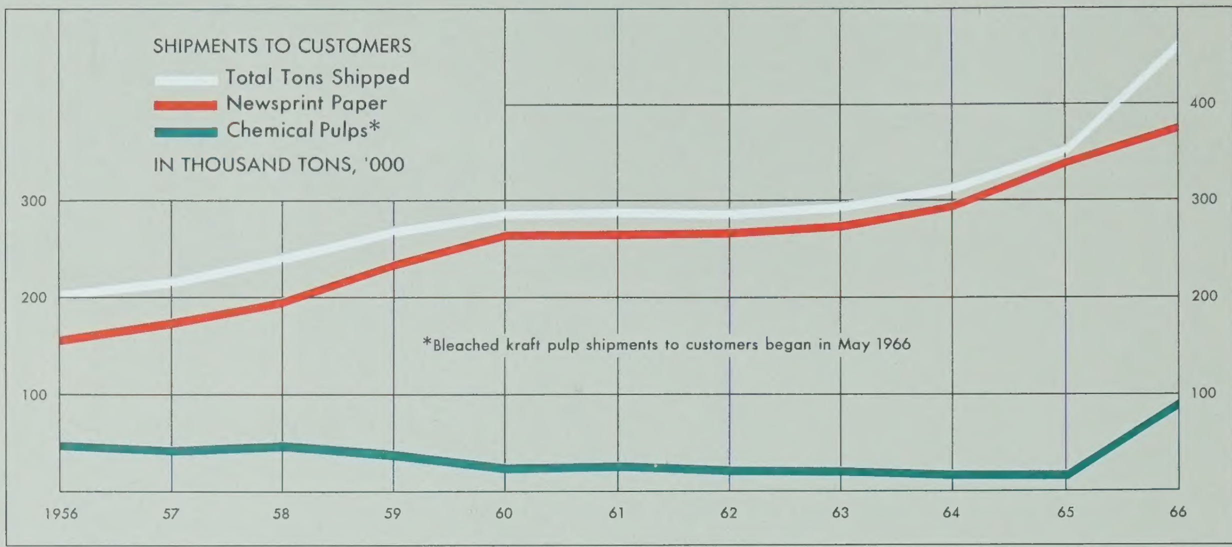
4. Other factors restricting our 1966 earnings were a total tax burden of $2.14 a share (page 6) versus $1.52 a share of net profit and progressive wage rate increases in labor union agreements.

5. During 1966 we paid off $4.3 million of long term debt, put $13.4 million into our properties and held our working capital reduction to $2.4 million. Fixed assets and surplus reached new highs.

ON INSIDE PAGES

Newsprint Reference Data and world market information are given on a separate sheet enclosed as a supplement to this report.

KRAFT PULP CHANGES OUR PATTERN



Prior to 1966 we had for sale only two products, newsprint and unbleached sulphite pulp. We mixed sulphite with groundwood pulp in making newsprint but, in the early 1950's, had a considerable surplus of sulphite for sale. After the start of our third and fourth paper machines in 1957-1958 our newsprint output climbed year by year, as shown in the chart above and the table of figures below. This required increasing amounts of sulphite and our surplus of sulphite was reduced accordingly so that newsprint constituted a higher and higher percentage of our total shipments. The start-up of our kraft pulp mill in 1966 marked our entry into the important market for bleached kraft pulp and this has already changed the percentage pattern of our shipments. Although kraft pulp was in production for only part of 1966 and our newsprint output reached another new high, our new diversification was sufficient to change our newsprint proportion from over 95 percent of our total shipments in 1965 to 81 percent of total 1966 shipments.

Annual newsprint shipments sometimes exceed production, and vice versa, and the same is true in our pulp operations. These differences between production and shipments are balanced by inventory changes. Over a period they are so negligible that our shipments of chemical pulps recorded below may be taken as representing also our production of these pulps for sale to customers.

	Newsprint Operating Ratio			Products Shipped to Customers		
In Tons	Capacity	Production	Ratio (%)	Newsprint	Chemical Pulps	Total
1957	198,312	182,075	91.8	175,569	41,916	217,485
1958	273,900	207,073	75.6	196,564	46,161	242,725
1959	358,512	221,552	61.8	235,697	36,660	272,357
1960	359,676	268,468	74.6	267,777	22,480	290,257
1961	357,348	268,619	75.2	267,797	23,313	291,110
1962	356,356	269,794	75.7	268,943	21,839	290,782
1963	356,048	272,956	76.7	275,686	21,067	296,753
1964	370,182	296,903	80.2	296,059	16,744	312,803
1965	368,676	336,377	91.2	337,045	15,737	352,782
1966	389,914	374,672	96.1	374,081	89,322	463,403

For 1967 our rated newsprint capacity is 422,956 tons. This is on a new basis of continuous operation, explained on page 12.

Directors listed on back cover

To the Shareholders

OUR MAIN EVENT in 1966 was the start-up of our kraft pulp mill and this was also the main factor in temporarily curtailing our earnings because completion of the mill brought interest and depreciation charges to a combined increase of $3.2 million or 80.5 percent over 1965. So, although 1966 sales made a new record, our net profit was off from its 1965 high by 3.9 percent.

Increased charges cutting into earnings are a normal part of major expansion, as we found with our newsprint expansion in the 1950's. But this effect is short-term. In due course debt and interest will be reduced, depreciation will diminish, new revenue from expansion will overtake the charges and we can reasonably expect net profit to move into another upward trend. This is the pattern by which an enterprise grows and ours has demonstrated it well in the last ten years, as recorded on pages 18-19. We have full confidence in our continuing growth.

DEPRECIATION and tax deferment are matters of increased significance. We deal with them on page 9 and also, on page 9, explain our policy regarding debt and interest during construction of our new mill. In doing so we have tried to avoid excess detail but shall be glad to respond to requests for further explanation.

WE AGAIN provide newsprint industry data as a background to company operations. As an experiment, this information is given in a supplementary insert sheet rather than in the bound report and we would be interested in any comments for or against this method. We also draw attention to a sequence of ten color pictures, starting on page 20, which portray our main stages in harvesting pulpwood mechanically, from forest to mill. These pictures tell quite a story.

On behalf of the directors,

March 29th, 1967

C. J. WARWICK FOX, *president*

REMINDER: YOUR PROXY

Shareholders not attending our annual meeting at the Royal York Hotel in Toronto on April 19th, 1967 are entitled and invited to be represented by using the proxy form enclosed with the notice of meeting and explained therein. Your signed proxy form should reach the Toronto address given in the notice not later than April 14th.

Dollars in this report are Canadian unless otherwise identified. Amounts per share are based on the total shares issued up to the end of 1966 as reported on page 11.

Scoreboard

	1966 THIS YEAR	1965 LAST YEAR	1962 5 YEARS AGO	% CHANGE IN 1966 vs 1965	vs 1962
newsprint paper, tons shipped	374,081	337,045	268,943	up 11.0	up 39.1
chemical pulps, tons shipped	89,322	15,737	21,839	up 467.6	up 309.0
total shipments to customers	463,403	352,782	290,782	up 31.4	up 59.4
Canadian dollars, except total sales; 000 omitted					
total sales, defined on page 21	$63,857	$46,872	$38,360	up 36.2	up 66.5
profit on U.S. dollar exchange	4,383	3,434	2,598	up 27.6	up 68.7
sales, in Canadian dollars	$68,240	$50,306	$40,958	up 35.6	up 66.6
operating profit, see page 21	17,886	15,746	13,186	up 13.6	up 35.6
interest charges	1,478	774	913	up 91.0	up 61.9
depreciation and depletion	5,637	3,167	3,285	up 78.0	up 71.6
profit before income taxes	10,924	11,863	9,086	down 7.9	up 20.2
provision for income taxes	—	—	4,730	—	—
deferred liability	5,450	6,165	—	down 11.6	up 15.2
NET PROFIT: total amount	$ 5,474	$ 5,698	$ 4,356	down 3.9	up 25.7
net per share	$1.52	$1.58	$1.21	down 3.9	up 25.7
dividends declared: total	$ 3,600	$ 3,600	$ 2,340	same	up 53.8
amount per share	$1.00	$1.00	$0.65	same	up 53.8
% of net per share	66	63	54	—	—
cash flow, defined on page 21	$16,562	$16,684	$ 7,641	down 0.7	up 116.8
working capital at year-end	6,116	8,499	11,980	down 28.0	down 48.9
fixed assets, at year-end	115,269	102,419	62,818	up 12.5	up 83.5
earned surplus, at year-end	24,855	22,981	17,643	up 8.2	up 40.9

Year of New Highs But Profit Held Down

After six consecutive years of increased earnings our 1966 net profit fell short of our 1965 high mark but in long-term respects we had a notable year and can look forward to continuing growth. The main reason for lower net profit was the increase in interest and depreciation charges arising from completion of our kraft pulp mill. These charges will diminish in due course, as explained on page 3.

Long-Term Gains in 1966

Features that made 1966 a notable year were the diversification we gained by entering the bleached kraft pulp market and the reaching of six new highs: in tonnage volume, dollar sales, operating profit, fixed assets, earned surplus and shareholders' equity. We also paid off $4.3 million of long term debt, spent $13.4 million on our properties and, despite these outlays, kept our working capital to a reduction of $2.4 million.

Working capital should start to move up again during 1967. Details are on page 10. We place them there rather than with the formal financial statements in order to provide a long-term chart and explanatory text.

Operating Profit at New High

Our operating profit in 1966 reached a new high of $17.9 million, an increase of 14 percent over $15.7 million in 1965. These totals include profit from U.S. dollar exchange of $4.4 million in 1966 and $3.4 million in 1965. The 1966 gains in each case reflect our substantial increase in 1966 sales, reported on page 7.

Net Profit Off 3.9 Percent

Profit before taxes in 1966 was $10.9 million versus $11.9 million in 1965, a decrease of 7.9 percent, and 1966 net profit was down 3.9 percent from our 1965 high. These profits did not keep pace with operating profit because they were subject to interest and depreciation charges which totalled $7.1 million in 1966 versus approximately $4.0 million in 1965: an increase of $3.2 million or 80.5 percent. We also had in 1966 progressive wage rate increases contained in the labor union agreements referred to on page 12. These added materially to our production costs, as also noted on page 12.

Total net profit of $5,474,377 in 1966 amounted to $1.52 a share versus $1.58 in 1965 and $1.40 in 1964. Net profit by quarters, tabulated on page 8, shows that the 1966 decrease began in the second quarter when the new kraft pulp mill was completed and the higher interest and depreciation charges took effect. The progressive wage rate increases mentioned above were then also affecting our earnings.

Dividends and Our Policy

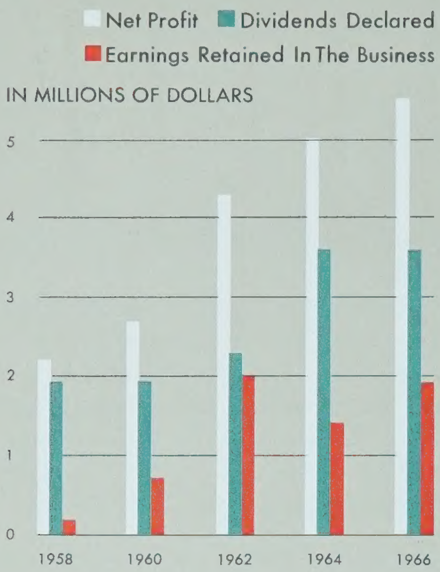
Dividends declared in 1966 were $1.00 a share, as in 1965, and represented 66 percent of 1966 net profit versus 63 percent in 1965. We believe in a liberal dividend policy; that is, our practice is to finance capital for expansion chiefly by borrowing and to repay from future earnings obtained by expansion rather than place an undue load on current earnings.

Shipments Up 31.4 Percent

Our shipments to customers in 1966 totalled 463,403 tons versus our previous high of 352,782 tons in 1965, an increase of 110,621 tons or 31.4 percent. The 1966 total consisted of 374,081 tons of newsprint, 81,463 tons of kraft pulp and 7,859 tons of surplus sulphite pulp. Our inventory changes were negligible.

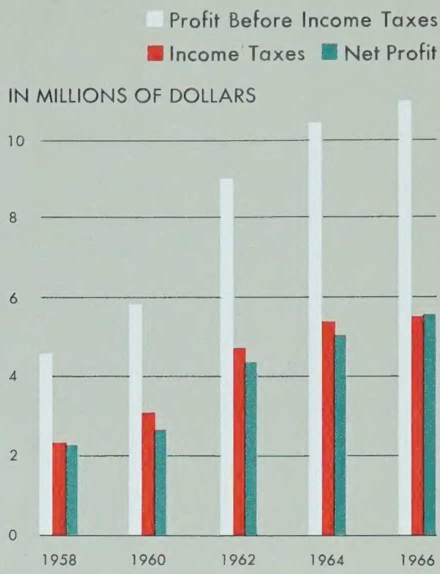
Our 1966 shipments of kraft pulp marked our start in this market and a milestone for our enterprise. The 374,081 tons of newsprint shipped in 1966 compared with 337,045 tons in 1965: an increase of 11.0 percent and a new high reflecting an all-time

NET PROFIT & DIVIDENDS



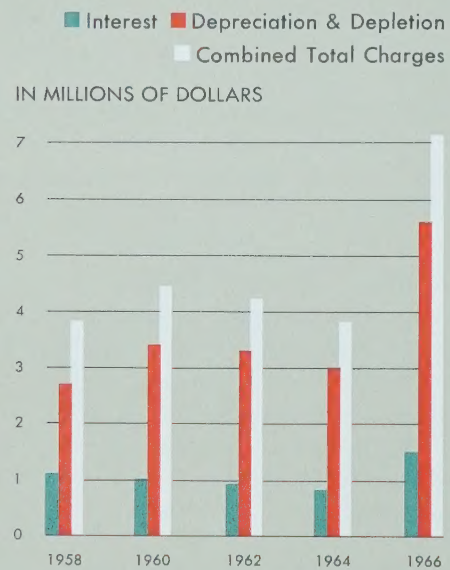
Our $5.5 million of net profit in 1966 amounted to $1.52 a share from which we declared dividends of $1.00 a share and retained 52 cents for use in the business. Dividends were thus 66 percent of net profit versus 63 percent in 1965.

PROFIT & INCOME TAXES



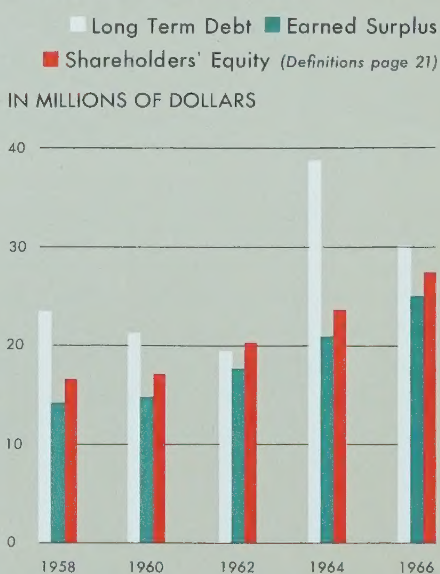
Income taxes alone have exceeded our total net profit through most of the past nine years and our total tax burden in 1966, including provincial and municipal charges, amounted to $2.14 a share versus $1.52 a share of net profit.

INTEREST & DEPRECIATION



As expected, completion of our kraft pulp mill in 1966 brought interest and depreciation charges to a combined new high of $7.1 million: the main factor reducing our net profit. These charges and our policies are referred to on page 3.

DEBT, SURPLUS & EQUITY



During 1966 we reduced our long term debt to $30.0 million from $34.3 million at the end of 1965, as explained on page 9. Earned surplus and shareholders' equity at the end of 1966 were at new highs of $24.8 million and $27.4 million.

record in U.S. consumption. Market demand for sulphite pulp remained low, as explained later.

Our start in the kraft pulp market gave us a new diversification that changed the percentage pattern of our shipments, shown with the tonnage chart and table on page 2, but this should not obscure the importance of our continuing growth in newsprint volume which has more than doubled within the last ten years. Taking 1955 shipments as 100 our company's newsprint shipments in 1966 were 242 compared with 134 for the Canadian newsprint industry as a whole.

Dollar Sales at New High

With 1966 tonnage shipments at a new high our total dollar sales, defined on page 21, also made a new record in 1966 with $63.9 million versus $46.9 million in 1965, an increase of 36.2 percent. Newsprint sales amounted to $51.5 million versus our previous high of $45.2 million in 1965, an increase of 13.9 percent. Sales of our kraft pulp, of various grades, were $11.4 million and surplus sulphite pulp sales were $1.0 million.

Newsprint sales in 1965 and 1964 accounted for about 96 percent of our total dollar sales. With our addition of kraft pulp sales in 1966 the newsprint proportion of our total dollar sales was moderated to 80.6 percent. A percentage breakdown of our sales by products through the last ten years is shown at the top of pages 18-19.

Profit Margin Reduced

Our profit margin (net profit as a percentage of sales) in 1966 was 8.6 percent versus 12.2 percent in 1965, the decrease being due to our lower net profit. Profit margin through the last ten years is also on pages 18-19. Our low point in this period was 5.3 percent in 1959 when net profit was curtailed by increased interest and depreciation charges arising from mill expansion, as was the case in 1966. We expect profit margin to move up again in due course as it did from its 1959 low.

Net profit per ton of total shipments, also shown on pages 18-19, has followed a pattern similar to profit margin. In 1966 it was $11.81 versus $16.15 in 1965 and a low of $6.98 in 1959. Its high point was $17.64 in 1955. Total shipments consist of newsprint plus pulp and, for the last ten years, are recorded in the table on page 2.

Sales and Market Prices

Our 1966 increase in total dollar sales was chiefly due to the new high in tonnage volume rather than to gains in the market prices of our products. Our newsprint contract price was increased by $5.00 to $139.00 a ton for delivery to main port destinations in our midwest U.S. market effective June 1st, 1966. The increase was general by suppliers of this market and was the first in over nine years. The additional revenues we derived from the increase have already been overtaken by cost increases in all phases of our operations. Announced market prices for first quality bleached kraft pulp and for unbleached sulphite pulp remained unchanged through 1966 at $155.00 and $129.00 a ton respectively.

Our Use of Sales Revenue

Our 1966 sales revenue reached a new high of $68.2 million versus $50.3 million in 1965 and $44.1 million in 1964. These figures are in Canadian dollars with profit from U.S. dollar exchange included. Our use of 1966 revenue is listed below in dollars and percentages, with 1965 percentages in italic at the right. Dollars are in thousands, with 000 omitted. A condensed comparison of percentages in recent years is given in a table on page 8.

wages, salaries, benefits	$11,935	17.5%	*17.4%*
pulpwood (over 50% for wages)	18,496	27.1	*24.8*
other materials and expenses	11,649	17.1	*14.8*
freight, delivery to customers	7,596	11.1	*11.0*
taxes, income and municipal	5,800	8.5	*12.8*
depreciation and depletion	5,637	8.3	*6.3*
interest charges	1,653	2.4	*1.5*
total costs and charges	$62,766	92.0%	*88.6%*
dividends declared	3,600	5.3	*7.2*
retained in the business	1,874	2.7	*4.2*
	$68,240	100.0%	100.0%

Cash Flow Steady

Our cash flow, defined on page 21, has been in an upward trend since 1957. In 1966 it was steady at $16.6 million versus $16.7 million in 1965 and $4.6 million ten years ago. Recent increases have reflected increases in our accumulated tax reductions applicable to future years, explained in the next section. Further cash flow details are tabulated on page 8 and on pages 18-19.

Our cash flow of $16.6 million in 1966 consisted of three items as follows: $5.5 million in total net profit, $5.6 million in combined depreciation and

SOME COMPARISONS OF 1966 RESULTS

The eight company tables below are part of our account of results obtained in 1966. They supplement the pages of text and the company charts on other pages. Further comparisons through the past ten years are provided by the summary of 41 financial items on pages 18 and 19 which also shows the figures on which our financial charts are based. A supplementary sheet gives a background of Newsprint Reference Data regarding the industry in Canada and the state of the world market as a whole.

1966 RESULTS BY QUARTERS

Dollars in thousands, 000 omitted.

quarter	total sales	operat. profit	net profit
First	$11,925	$ 3,461	$ 1,198
Second	16,833	4,647	1,501
Third	17,142	5,112	1,290
Fourth	17,957	4,666	1,485
Totals	$63,857	$17,886	$ 5,474

Total sales are before dollar exchange; the other two items include profit from U.S. dollar exchange.

NET PER SHARE BY QUARTERS

Per share of total shares issued at end of 1966.

quarter	1966	1965	1964	1960
First	$0.33	$0.25	$0.23	$0.12
Second	0.42	0.46	0.42	0.20
Third	0.36	0.45	0.35	0.16
Fourth	0.41	0.42	0.40	0.24
	$1.52	$1.58	$1.40	$0.72

During the year we issue quarterly reports of shipments, sales, earnings and other results of our operations.

CASH FLOW TOTAL & DETAILS

	1966	1965	1964	1960
Total ($000)	$16,562	$16,684	$10,501	$ 5,967
Per share	4.60	4.63	2.92	1.66
Per ton*	35.74	47.29	33.57	20.55

*Per ton of total shipments on page 2.

USE OF SALES REVENUE

percentages	1966	1965	1964	1960
costs and taxes	92.0	88.6	88.6	92.7
dividends	5.3	7.2	8.1	5.4
retained for use	2.7	4.2	3.3	1.9

Further reported on page 7.

TOTAL SALES & NEWSPRINT

Dollars in thousands, 000 omitted.

	1966	1965	1964	1955
Total sales	$63,857	$46,872	$41,150	$24,814
Newsprint*	51,459	45,176	39,422	19,585
Newsprint %	80.6	96.4	95.9	78.9

*Referred to with chart on page 2.

SALES & PROFIT PER TON

Per ton of total shipments as on page 2.

	1966	1965	1964	1960
Sales	$137.80	$132.86	$131.55	$132.33
Net profit	11.81	16.15	16.13	9.29
Profit margin*	8.6%	12.2%	12.3%	7.0%

*Net profit as percent of sales.

U.S. DOLLAR EXCHANGE PROFIT

*Loss in 1960.

($000)	1966	1965	1964	1960
Exchange profit	$4,383	$3,434	$2,986	$880*
% of total sales	6.9	7.3	7.3	2.3

SHAREHOLDERS & OWNERSHIP

*Percent of total shares issued at end of 1966.

	1966	1965	1964	1960
*Owned in Canada	93.6%	93.7%	92.9%	91.0%
No. of shareholders	6,632	6,926	6,340	5,291

depletion charges, and $5.5 million in our accumulated tax reduction.

Accumulated Tax Reductions

Depreciation claimed for income tax purposes is known as capital cost allowances and these allowances are entirely different from depreciation deducted from earnings, which is reported in a later section on this page.

The capital cost allowances we claim for income tax purposes are at the maximum rates allowed by the Income Tax Act and related legislation and apply to all of our plant and equipment whether in operation or under construction. In recent years such allowances have been considerably greater than the depreciation deducted from our earnings and have resulted in a substantial deferment of taxes.

For 1966 our capital cost allowances exceeded our deducted depreciation by $13.4 million and consequently, for tax purposes, our 1966 earnings showed a loss of $2.8 million rather than a profit. This resulted in deferment of our entire 1966 income tax provision of $5.5 million and left a balance of tax loss of $2.8 million to be applied against future earnings for tax purposes.

The above 1966 tax deferment of $5.5 million has been added to the $11.1 million of tax reductions accumulated at the end of 1965 to make a total of $16.6 million of accumulated tax reductions at the end of 1966. The $16.6 million total is shown in our balance sheet (page 17) as a deferred credit, described as "accumulated tax reductions applicable to future years".

This means that when, as expected, our capital cost allowances in future years prove to be less than the depreciation deducted from earnings the additional taxes thus caused will be charged against our accumulated tax reductions. The result will be that, in such future years, we shall continue to show the correct deduction of income taxes from the annual earnings involved.

Our Method of Tax Reduction

Our method of dealing with income tax reductions, described above, is known as the deferred-credit method and we believe it gives a realistic portrayal of our earnings and income taxes. Another method is called the flow-through method, in which only the income taxes actually payable for a year are deducted from earnings. The use of this method in our case could cause wide year to year variations in our reported earnings and could be highly confusing.

For example, the flow-through method would show our 1966 net earnings as $10.9 million instead of our actual and reported $5.5 million. Our tax position in 1966 and 1965 was abnormal because of our large capital expenditures but these figures serve to illustrate why we prefer to use the deferred-credit method.

Deducted Depreciation Policy

We point out again that depreciation deducted from earnings is entirely different from capital cost allowances claimed for income tax purposes as reported above. Our deducted depreciation is determined at the maximum rates allowed by the Income Tax Act of 1962 and applies only to plant and equipment in production, not to projects under construction. Consequently we did not charge depreciation on our new kraft pulp mill and related facilities until the mill began normal operation.

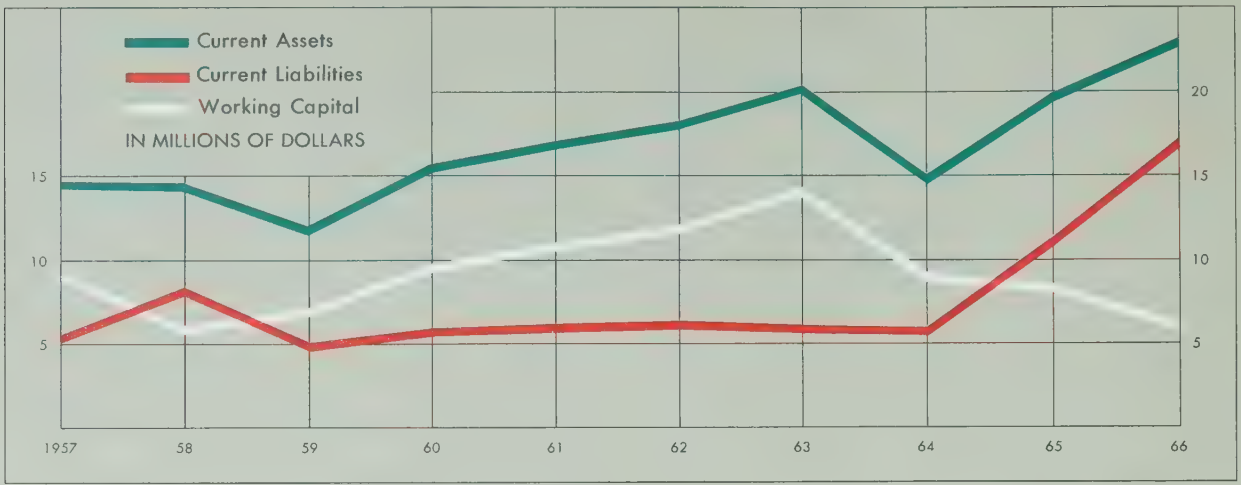
When the mill reached this stage of operation our depreciation deducted from earnings moved up substantially and for 1966 amounted to $5,637,263 versus $3,166,642 in 1965 as described earlier and shown in our profit and loss statement on page 15. Depreciation includes depletion, both defined on page 21 and recorded for the past ten years on pages 18-19.

Debt, Interest and Policy

During 1966 we paid off $4,283,250 of long term debt by redemption of bonds and debentures and also, in our 1966 current liabilities, provided for $4,303,250 of payments of principal required during 1967. At the end of 1966 our long term debt due after 1967 had thus been reduced to $30,009,500 as shown in our balance sheet details of bonds and debentures on page 17.

Our above 1966 provision of $4,303,250 for payments of principal required in 1967 consisted of $640,000 for our 4 percent bonds, $1,051,000 for our 5 percent debentures, $1,430,000 (U.S. funds) for our 5¾ percent debentures, series B, and $1,000,000 (U.S. funds) for our 5¾ percent debentures, series C, plus $182,250 of dollar exchange on the U.S. funds involved.

WORKING CAPITAL RECORD AND DETAILS



SOURCE AND APPLICATION OF FUNDS

Working capital, defined on page 21, varies with different needs and circumstances. During a period of mill expansion it is usually reduced by capital expenditures, as it was during our newsprint expansion of the 1950's, and moves up again when construction is completed. Our working capital reductions in the last three years have been mainly due to expenditures on the new kraft pulp mill; with the mill completed we can now look for an upward trend again. Compared with our working capital reduction of $2.4 million in 1966 we paid off $4.3 million of long term debt and spent $13.4 million on our properties. Working capital details through the past ten years are given on pages 18-19.

SOURCE OF FUNDS	1966	1965	1964
net profit, as reported on page 15	$ 5,474,377	$ 5,697,776	$ 5,047,008
exercise of share options	10,780	2,075	—
provision for depreciation and depletion	5,637,263	3,166,642	3,031,914
portion of proceeds of debenture issue	2,687,500	18,812,500	—
increase in deferred liability for income taxes	5,450,000	7,820,000	2,422,000
	$19,259,920	$35,498,993	$10,500,922

APPLICATION OF FUNDS			
expenditure on properties	$13,374,084	$28,093,101	$11,115,497
provision for sinking fund	4,303,250	4,283,000	1,042,000
dividends declared	3,600,304	3,600,063	3,600,000
special refundable federal tax	365,000	—	—
	$21,642,638	$35,976,164	$15,757,497
increase or decrease* in working capital	$ 2,382,718*	$ 477,171*	$ 5,256,575*
working capital, at year-end	$ 6,116,350	$ 8,499,068	$ 8,976,239

In dealing with interest charges our policy has been similar to our policy regarding depreciation deducted from earnings and our general policy in financing mill expansion from future revenue earned by expansion, referred to in connection with dividends on page 5. In 1966 as in 1965 we capitalized interest on financing construction of the kraft pulp mill and related facilities until the mill came into production. The amount thus capitalized in 1966 was $397,564.

With the mill in operation our interest charges against earnings increased as anticipated and our interest expense in 1966 amounted to $1,478,498 versus $774,190 in 1965. These charges will diminish as debt is paid off. Interest charges through the past ten years are recorded on page 18-19.

Shares Issued Under Options

During 1966 options were extended to 59 members of our staff to purchase up to 33,405 of the company's shares at $24.50 a share, this being 10 percent below the market price on the day preceding the issue of the options. Under these options 440 shares were purchased by the end of the year. Under the share options extended to newsprint contract customers in 1964, previously reported, no options were exercised in 1966 and the total issued under such options remained 83 shares, as at the end of 1965. Including shares purchased under the foregoing options to staff and customers we had at the end of 1966 a total of 3,600,523 shares issued out of 4,500,000 authorized.

Kraft Pulp Mill Completed

Our kraft pulp mill, described on the inside front cover of this report, started operation on April 8th, 1966 when the continuous chemical digester received its first charge of pulpwood chips. At this stage our production consisted of unbleached kraft pulp, known as brown stock. The bleaching plant of the mill was put through a series of tests and came into operation at the end of April when we began producing fully bleached kraft pulp. Shipments to bleached kraft pulp customers began early in May. Our total kraft pulp shipments in 1966 included grades other than fully bleached kraft pulp.

Kraft pulp was also added to the sulphite and groundwood pulps in our newsprint content with a notable improvement of newsprint quality and we are engaged in constant research to determine the best combination of these three pulps to meet the exacting requirements of modern newspaper presses.

The final construction cost of the kraft pulp mill proved to be $36.5 million versus our 1965 annual report estimate of $35.7 million, the difference being due to increases in construction wage rates. The total cost of the mill and all of its ancillary facilities amounted to approximately $60,000 per ton of daily capacity. This compares with costs of similar new mills in Canada and U.S.A. ranging from $80,000 to $100,000 per daily ton and is a factor of potential competitive advantage. The mill's planned capacity rate of 200,000 tons a year was fully established by performance during 1966.

Other Projects Completed

Five other major construction projects described in our 1965 annual report were also completed during 1966 at a total cost of $6.6 million. This cost was the same as our reported estimate despite unexpected increases in construction wage rates. The five completed projects are the power boiler, the refuse burning boiler, initial facilities for controlling water pollution, a research and development laboratory, and facilities for the future installation of a steam turbine power generator.

Subsequent to undertaking the kraft pulp mill and the above other projects we undertook and nearly completed in 1966 four further projects at an estimated cost of $3.0 million. These further projects consist of expansion of our initial facilities for controlling water pollution, modification of our bark handling system, additional facilities for treatment of boiler feed water, and revision of our newsprint finishing operation to provide automatic wrapping of newsprint rolls. Total capital expenditures on our properties in 1966 amounted to $13.4 million.

Water and Air Problems

Like most pulp and paper plants we have to cope with problems of water pollution and chemical odors. Control of these is a public obligation which we fully recognize and which we are doing our utmost to meet in cooperation with the Ontario Water Resources Commission and other authorities. To the end of 1966 we have spent approximately $3.5 million to provide control of liquid waste and air odors and we intend to do whatever is feasible to meet the situation.

Lease Commitments

With our growing development of mechanized woods operations, described on page 20, we adopted in 1966 a policy of leasing certain heavy equipment and camp facilities in lieu of capital expenditures for purchase and have found this advantageous. Payments on such leases in 1966 amounted to $185,000 and will amount to $500,000 in 1967. Some commitments of this kind continue to the end of 1973. Reference to this subject is contained in notes to the financial statements on page 14. We have no other lease or leasehold obligations with any bearing on our financial position.

Labor Union Agreements

In December 1966 we made a new agreement with our woods work force, represented by the Lumber and Sawmill Workers' Union, Local 2693, of the United Brotherhood of Carpenters and Joiners of America. This agreement was reached by group negotiations in which we participated with six other Ontario pulp and paper companies. It was retroactive to September 1966 and runs to August 31st, 1968. At the end of 1965, as previously reported, we made agreements with five unions representing our mill work force firm until April 30th, 1968. Our position with our work force, both woods and mill, is thus stabilized until well into 1968.

Both our mill work force agreements of 1965 and our woods force agreement of 1966 contain progressive wage rate increases which alone added some $1.1 million to our 1966 wage payments. Our production costs will be substantially increased throughout the life of these agreements. Cost increases are also involved in the agreements for continuous newsprint operation, reported below.

Newsprint Capacity

Capacities of newsprint mills in Canada are rated by independent statisticians on a standard formula of performance per day; annual capacities are these daily ratings multiplied by the number of workdays a mill has in a year. Mills with continuous operation (seven-day week) have considerably more workdays than mills operating a six-day week.

Continuous operation is now general in Canada and is part of the increased total Canadian capacity. Our mill retained the six-day week through 1966 because our newsprint mill expansion of the 1950's gave us reserve capacity each year as shown in the table on page 2. In 1966, however, we operated at close to our full rated capacity and at the end of the year reached an agreement with the labor unions concerned as to terms for conducting continuous operation. The terms involve substantial increases in production costs.

Our 1967 rated capacity of 422,956 tons is on the basis of continuous operation starting in February with 355 workdays in the year compared with 308 workdays in 1966. Compared with our 1966 capacity rating the 1967 rating is an increase of 33,042 tons or about 8.5 percent. We believe that our mill has a potential increase in excess of this.

Company Outlook

Our products for sale in 1967 are newsprint paper and chemical pulps, bleached and unbleached. We expect demand for newsprint and bleached kraft pulp to be strong again but market demand for unbleached sulphite pulp is being replaced by demand for other grades.

We expect our newsprint shipments in 1967 to show an increase over the 374,081 tons shipped in 1966 and to reach a new all-time high. At this stage, we are unable to estimate the extent of the possible increase. A factor in this outlook is our arrangement for continuous operation of our newsprint mill, as reported above.

In chemical pulps, after providing for our use of them in newsprint production, we estimate that our 1967 shipments to customers will show a substantial increase with a total of about 160,000 to 170,000 tons versus 89,322 tons in 1966 when our bleached kraft pulp shipments did not start until May. Substantial new kraft pulp capacity was built in Canada and U.S.A. in 1966 and more is in prospect for 1967. We expect the resulting competitive pressure to continue into 1968.

Tonnage volume is only one factor in determining earnings; other factors include imponderables such as market prices, dollar exchange rates, cost trends, taxes and government charges. In general, however, we believe that our company is in an advantageous competitive position with favorable factors in our new diversification of top quality products, the high efficiency of our mill operations, and our unsurpassed northern wood resources.

The machine shown here is in our new kraft pulp mill, described on the inside front cover of this report, and represents the final stage in our production of highest quality bleached kraft pulp for sale to customers. The white rectangle in the foreground is wet pulp from the bleach plant flowing through a headbox onto a moving wire section, 178 inches wide, to form a sheet. From the wire section, where most of the moisture is removed, the sheet moves on through a series of presses and dryers at the far end of the picture. When the sheet comes out of the final dryer it is cooled, cut into smaller sheets, and wrapped in bales for shipment. The machine is 125 feet long and cost approximately one million dollars.

Notes to the Financial Statements

1. The company intends to claim for income tax purposes for the year 1966 capital cost allowance at the maximum allowable rates on all depreciable assets. The amount claimed will exceed the depreciation recorded in the accounts to the extent that there will be a loss. Accordingly no income will be subject to tax for the current year and the loss so determined is deductible in calculating the taxable income of future years. The current year's provision for income taxes has been added to the Accumulated Tax Reductions Applicable to Future Years.

2. In 1964 the company granted to customers options to acquire, in accordance with the terms of such options, 180,621 common shares at $25.00 per share exercisable not later than December 31, 1973. To date 83 shares have been issued under the terms of these options.

In 1966 the company approved a Share Option Plan and reserved 50,000 common shares of the company for the granting of options to certain executive and other employees of the company or of any subsidiary of the company. Options have been granted to acquire, under the terms of the plan, 33,405 shares at $24.50 exercisable not later than June 1, 1975. During the year 440 shares were issued under the plan, leaving options covering 32,965 shares outstanding on December 31, 1966.

3. Interest on the 5¾% debentures less the interest received on the proceeds thereof has been capitalized to the date when the kraft pulp mill came into production.

4. The company has entered into lease agreements (with options to purchase) covering certain woodlands camps and equipment for periods of two to seven years. The payments under these agreements amounted in 1966 to $185,000. Payments will aggregate $500,000 in 1967, $450,000 in 1968 and thereafter in reducing amounts to $75,000 in 1973.

Auditors' Report to the Shareholders

To the Shareholders of The Great Lakes Paper Company, Limited

We have examined the accompanying consolidated financial statements of The Great Lakes Paper Company, Limited for the year ended December 31, 1966 comprising the consolidated balance sheet as at that date and the consolidated statement of profit and loss and earned surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In our opinion the aforementioned consolidated statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

TORONTO, ONTARIO, JANUARY 27, 1967

Profit & Loss and Earned Surplus

Consolidated Statements for years ended December 31, 1966 and 1965

The Notes to Financial Statements on page 14 are an integral part of this financial statement.

	1966	1965
Total sales	$63,857,287	$46,871,604
U.S. dollar exchange premium	4,382,684	3,434,613
	$68,239,971	$50,306,217
Cost of sales and delivery expense to customers	$48,834,973	$33,410,269
Selling and administrative expenses	1,464,085	1,110,829
	$50,299,058	$34,521,098
Profit from operations	$17,940,913	$15,785,119
Other income	153,825	58,089
	$18,094,738	$15,843,208
Interest on long term debt (Note 3)	$ 1,478,498	$ 774,190
Depreciation and depletion	5,637,263	3,166,642
Directors' fees	54,600	39,600
	$ 7,170,361	$ 3,980,432
Profit before provision for income taxes	$10,924,377	$11,862,776
Provision for income taxes (deferred liability) (Note 1)	5,450,000	6,165,000
NET PROFIT for year	$ 5,474,377	$ 5,697,776
Earned surplus at beginning of year	22,980,521	20,882,808
	$28,454,898	$26,580,584
Dividends declared on common shares	3,600,304	3,600,063
EARNED SURPLUS at end of year	$24,854,594	$22,980,521

Consolidated Balanc

ASSETS	1966	1965
Current Assets		
Cash	$ 79,592	$ 2,611,553
Accounts receivable	9,230,715	5,829,427
Income taxes recoverable	1,655,000	1,655,000
Inventories at cost:		
Finished goods	479,578	223,549
Stores, pulpwood and other raw materials	6,826,189	5,792,338
Advances and expenditure on pulpwood operations	4,573,700	3,292,267
Prepaid insurance and other expenses	235,485	329,713
	$ 23,080,259	$19,733,847
Special refundable federal tax	$ 365,000	$ —
Balance of proceeds of Debenture Issue on deposit ($2,500,000 U.S. funds)	$ —	$ 2,687,500
Fixed Assets—at values placed thereon at the inception of the company with subsequent additions at cost:		
Land, buildings, machinery, woodlands improvements and equipment	$115,268,838	$67,004,720
Accumulated depreciation	48,724,029	43,776,892
	$ 66,544,809	$23,227,828
Construction in progress	$ —	$35,414,048
Woodlands under lease	$ 4,013,443	$ 4,039,539
Accumulated depletion	3,097,653	2,957,387
	$ 915,790	$ 1,082,152
	$ 67,460,599	$59,724,028
	$ 90,905,858	$82,145,375

Signed on behalf of the Board:

C. J. W. Fox, *Director* R. G. Meech, *Director*

eet at December 31st

LIABILITIES	1966	1965
Current Liabilities		
Bank indebtedness	$ 4,500,000	$ —
Accounts payable and accrued charges	7,260,528	6,151,758
Dividend payable	900,131	900,021
Current maturities on long term debt	4,303,250	4,183,000
	$16,963,909	$11,234,779
Long Term Debt		
First Mortgage Bonds, Series "A"		
4% sinking fund bonds maturing 1975	9,570,000	10,190,000
	$ 9,570,000	$10,190,000
Debentures		
5% sinking fund debentures maturing 1976	$ 5,855,000	$ 6,906,000
5¾% serial debentures, Series "B" maturing 1967-1972 ($8,570,000 U.S. funds)	9,212,750	10,750,000
5¾% serial debentures, Series "C" maturing 1967-1975 ($9,000,000 U.S. funds)	9,675,000	10,750,000
	$24,742,750	$28,406,000
	$34,312,750	$38,596,000
Current maturities	4,303,250	4,283,000
	$30,009,500	$34,313,000
Accumulated Tax Reductions applicable to future years (Note 1)	$16,565,000	$11,115,000
SHAREHOLDERS' EQUITY		
Common shares without nominal or par value (Note 2)		
Authorized 4,500,000 shares Issued 3,600,523 shares	$ 2,512,855	$ 2,502,075
Earned Surplus	24,854,594	22,980,521
	$27,367,449	$25,482,596
	$90,905,858	$82,145,375

The Notes to Financial Statements on page 14 are an integral part of this financial statement.

FINANCIAL SUMMARY: LAST TEN YEARS

Except as indicated dollars are in thousands with 000 omitted.

	1966	1965	1964	1963	1962
SALES & EARNINGS					
Total sales, as defined on page 21	63,857	46,872	41,150	39,195	38,360
Newsprint percentage of above total sales	80.6	96.4	95.9	94.6	94.3
Kraft pulp percentage of above total sales	17.8	—	—	—	—
Sulphite pulp percentage of above total sales	1.6	3.6	4.1	5.4	5.7
Operating profit, as defined on page 21	17,886	15,746	14,068	13,523	13,186
U.S. dollar exchange profit or loss*	4,383	3,434	2,986	2,903	2,598
Interest charges on long term debt	1,478	774	821	863	913
Depreciation and depletion charges	5,637	3,167	3,032	3,131	3,285
Profit before providing for income taxes	10,924	11,863	10,417	9,672	9,086
Provision for income taxes, explained on page 9	5,450	6,165	5,370	5,000	4,730
Net profit, total amount	5,474	5,698	5,047	4,672	4,356
Percentage up or down* from previous year	3.9*	12.9	8.0	7.3	42.4
Net profit per common share; see note below	1.52	1.58	1.40	1.30	1.21
Net profit per ton of total shipments; tons on page 2	11.81	16.15	16.13	15.74	14.98
Preferred dividends declared	nil	nil	nil	nil	nil
Common dividends declared, total amount	3,600	3,600	3,600	2,880	2,340
Dividends per common share; in cents	100	100	100	80	65
Dividend percentage of earnings per share	66	63	71	62	54
ASSETS & LIABILITIES					
Current assets, at year-end	23,080	19,734	14,855	20,248	18,240
Current liabilities, at year-end	16,964	11,235	5,879	6,015	6,260
Ratio of above assets to liabilities	1.4	1.8	2.5	3.4	2.9
Working capital, as defined on page 21	6,116	8,499	8,976	14,233	11,980
Inventories at cost, described in balance sheets	11,879	9,308	7,262	7,236	8,028
Annual expenditures on properties	13,374	28,093	11,115	1,767	3,079
Fixed assets, as described in balance sheets	115,269	102,419	74,653	63,846	62,818
Long term debt, at year-end	30,009	34,313	38,596	18,138	19,180
Above debt as percentage of capitalization	52.3	57.4	62.3	45.3	48.8
Accumulated tax reduction, explained on page 9	16,565	11,115	3,295	873	735
Accumulated depreciation and depletion	51,822	46,734	43,921	41,224	38,858
Earned surplus, at year-end; defined on page 21	24,855	22,981	20,883	19,436	17,643
EQUITY & OTHER DATA					
Common shares issued; see note below	3,600,523	3,600,083	3,600,000	3,600,000	3,600,000
Number of common shareholders, at year-end	6,632	6,926	6,340	6,295	6,077
Percentage of shares held in Canada, at year-end	93.6	93.7	92.9	93.3	92.7
Shareholders' equity, total, defined on page 21	27,367	25,483	23,383	21,936	20,143
Shareholders' equity per common share	7.60	7.08	6.50	6.09	5.60
Net profit percentage return on above equity	20.0	22.4	21.6	21.3	21.6
Net profit percentage return on total sales	8.6	12.2	12.3	11.9	11.4
Total cash flow, as defined on page 21	16,562	16,684	10,501	7,804	7,641
Cash flow per common share	4.60	4.63	2.92	2.17	2.12
Earnings retained in the business	1,874	2,098	1,447	1,792	2,016
Number of employees on payroll, at year-end	3,077	2,406	2,100	1,890	1,873

All figures per share are on 3,600,523 shares issued up to the end of 1966 out of 4,500,000 authorized.

Production and shipments are summarized on page 2.

1961	1960	1959	1958	1957
38,269	38,409	35,841	31,983	28,684
94	93.8	88.5	82.6	81.9
—	—	—	—	—
6	6.2	11.5	17.4	18.1
10,730	10,181	8,868	8,320	7,616
674	880*	1,432*	908*	874*
959	1,008	1,053	1,097	1,084
3,208	3,389	3,606	2,677	2,522
6,645	5,822	4,100	4,461	4,287
3,585	3,125	2,200	2,275	2,125
3,060	2,697	1,900	2,186	2,162
13.5	41.9	13.1*	1.1	29*
.84	.72	.49	.57	.57
10.51	9.29	6.98	8.99	9.94
nil	120	120	120	120
2,100	1,920	1,920	1,920	1,920
58	53	53	53	53
69	74	108.8	93	93
16,947	15,480	11,992	14,390	14,617
6,107	5,927	4,928	8,348	5,429
2.8	2.6	2.4	1.7	2.7
10,840	9,553	7,064	6,042	9,188
8,732	8,027	7,318	10,337	10,320
2,133	601	1,318	5,808	16,663
60,116	58,102	57,583	56,557	51,098
20,222	21,264	22,306	23,348	24,400
51.4	53.9	56.1	57.0	58.3
775	775	900	1,025	
35,976	32,854	29,511	26,182	23,812
15,628	14,668	13,954	14,072	13,915
,600,000	3,600,000	3,600,000	3,600,000	3,600,000
5,834	5,291	5,392	5,800	5,657
91.8	91.0	91.1	90.7	90.2
18,128	17,168	16,454	16,572	16,415
5.04	4.77	4.57	4.60	4.56
16.9	15.7	11.5	13.2	13.2
8	7	5.3	6.8	7.5
6,268	5,967	5,386	4,743	4,565
1.74	1.66	1.50	1.32	1.27
960	714	—119	157	116
1,687	1,756	1,877	1,680	1,806

Terms used in this report are defined on page 21.

NOTES & COMMENT

The Great Lakes Paper Company, Limited was incorporated under The Companies Act (Ontario) in 1936.

Total net profit is as recorded in annual reports. Net per common share in 1957-1960 inclusive is after deducting preference dividends paid in those years as shown, the last of the preference shares (Class B) being cancelled as of December 31st, 1960.

Net profit and dividends per common share are shown to the nearest cent on the shares now issued. Dividends on common shares began in 1947 and have since been paid each quarter. They have been advanced from an annual rate of 53 cents per share in 1960 to $1.00 starting in 1964.

Changes in our working capital since 1957 reflect bond and debenture issues and expenditures on our major 1955-1958 newsprint mill expansion program and our further expansion in our kraft pulp mill and other projects undertaken in 1964.

Our accumulated tax reduction of $16.6 million at the end of 1966 is explained in the section dealing with capital cost allowances on page 9.

Long term debt since 1957 is after deducting sinking fund instalments payable during the following year but provided for during the current year, as shown on page 17.

1 The machine in this picture is a Tree Harvester and it represents the first stage in harvesting pulpwood mechanically. Here its arm has gripped a tree, climbed the trunk, trimmed off all branches, and is removing the top. It will then cut the base and drop the tree to a pile on the ground as shown in the next picture.

2 Here the Tree Harvester is dropping a trimmed tree to form a pile which will be moved as shown in picture number three. The machine does its full performance of trimming, topping, cutting and dropping in less than a minute. It can process trees over sixty feet in height, costs over $90,000 and is operated by one man.

Ten Pictures Tell New Forest Story

On this and the two pages that open out opposite are ten pictures which, in sequence numbered from left to right, show the main stages of harvesting pulpwood mechanically. The sequence runs from cutting a tree in the forest to delivering it to one of the four log storage piles at our mill and finally conveying it into the mill for processing. In all of these stages, as you can see by the pictures, physical effort has been almost wholly replaced by machines and skilled operators.

Not many years ago a typical woodsman was one who toiled with axe and bucksaw; today he can be thought of as an operator in charge of a machine which, like the Tree Harvester in the first two pictures above, may cost over $90,000. As recently as the 1950's we had over 500 horses for moving wood in the forest; today we have none. They have been replaced by skidders, trucks and other machines. Similarly, our movement of wood from forest to mill is now entirely by rail and truck in place of river drives and lake towing.

Greater productivity by mechanization is the growing pattern of our woods operations but our work force in the forest has more than doubled within the last year or so: up from an average of some 600 men to about 1,400 in 1966. This growth has been due to the much greater volume of pulpwood required to meet the needs of our new kraft pulp mill, pictured on the front cover, and our increased newsprint output. In 1965 we required 431,000 cords of pulpwood; in 1966 our pulpwood procurement was over 600,000 cords.

A substantial part of our wood harvesting still depends on individual power saw operators but we are on our way to almost complete mechanization when such men will be in charge of machines instead of working manually.

Progress in harvesting wood is like progress in agriculture. The farmer who used to plod behind horses and plough may now be operating an air-conditioned tractor. Agriculture and pulp and paper are two basic Canadian industries that live by export of their commodities; it is only by enterprise in production through mechanization that they can continue to compete in world markets. We realize this in Great Lakes Paper and aim to keep our place in the front rank of such developments.

Glossary of Terms in This Report

TOTAL SALES: Total amount we obtain from the sale of our products before deducting costs of delivery to customers and before dollar exchange.

DOLLAR EXCHANGE: Conversion of U.S. dollars, which we receive for most of our sales, into Canadian dollars. Results in a profit when the Canadian dollar is at a discount in relation to the U.S. dollar, as now, and a loss when the Canadian dollar is at a premium.

OPERATING PROFIT: Profit we get from manufacture and sale of our products after deducting wages, cost of materials, cost of delivery and all other costs except interest charges, depreciation and depletion, and taxes. Includes loss or profit from dollar exchange. Applies to operations only; does not include investment or other form of income.

INTEREST CHARGES: Interest we pay on bonds and debentures we have issued to borrow money, similar to interest on a mortgage; also interest on bank loans.

DEPRECIATION: A portion of the original cost of our fixed assets (defined below) such as plant and equipment, which we write off each year as a deduction from profit; rates fixed by income tax regulations; our method of application and details of our policy fully explained in this report.

DEPLETION: Similar to depreciation but applies to our usage of pulpwood from our licenced forest areas rather than to plant and equipment; maximum amount fixed by income tax regulations.

NET PROFIT: Our total income (operating profit plus all other income as defined above) less interest charges, depreciation and depletion, directors' fees, taxes and all other related costs; the net income we have at end of a year to pay dividends or retain for use in our business.

CASH FLOW: Total cash generated by operations in a year. Consists of net profit available for common dividends plus amount of depreciation and depletion charged against operations for the current year and plus charges, if any, for special reserves.

EARNED SURPLUS: Accumulated total of our annual net profits since the start of the company (1936) less dividends to shareholders during the same period and after taking into account capital gains or losses such as bond and debenture issue expenses.

ASSETS: Everything we own, consisting of two main classes: current assets and fixed assets.

CURRENT ASSETS: Cash and all assets we can normally expect, within a year, to convert into cash or to consume in the process of earning income.

FIXED ASSETS: Long term assets, such as land, buildings, plant and equipment, which we hold for earning income rather than for sale or conversion.

LIABILITIES: Everything we owe, such as bills, taxes and borrowed money; consist of two main classes: current liabilities and long term debt.

CURRENT LIABILITIES: Amounts we owe due for payment within one year; usually consist of bills for services and materials, accrued charges, sinking fund instalments, taxes and interest charges; in general, means short term debt.

ACCRUED CHARGES: Amounts we owe for payment later, such as wages and other charges that accumulate until their due date.

LONG TERM DEBT: Amounts we owe from borrowing money by issues of bonds and debentures which, ordinarily, must be repaid within the term or period of each issue. Our longest present terms are for bonds due 1975 and debentures due 1976.

SINKING FUND: Cash amounts we pay to independent trustees of our bond and debenture issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption. Long term debt is reduced accordingly, like reducing a mortgage.

WORKING CAPITAL: Amount by which our current assets exceed our current liabilities, both as defined above. This is a measure of our working or operating resources.

BALANCE SHEET: Statement of our financial position at a year-end showing what we possess (assets of all kinds) versus what we owe (liabilities of all kinds) and shareholders' equity; set forth in accordance with Ontario Corporations Act. The word "consolidated" means that all subsidiaries are included to show position of our enterprise as a whole.

SHAREHOLDERS' EQUITY: Value of the shareholders' ownership or interest in the company, shown on our balance sheet. Consists of share capital plus earned surplus and is the amount by which our total assets exceed our liabilities.

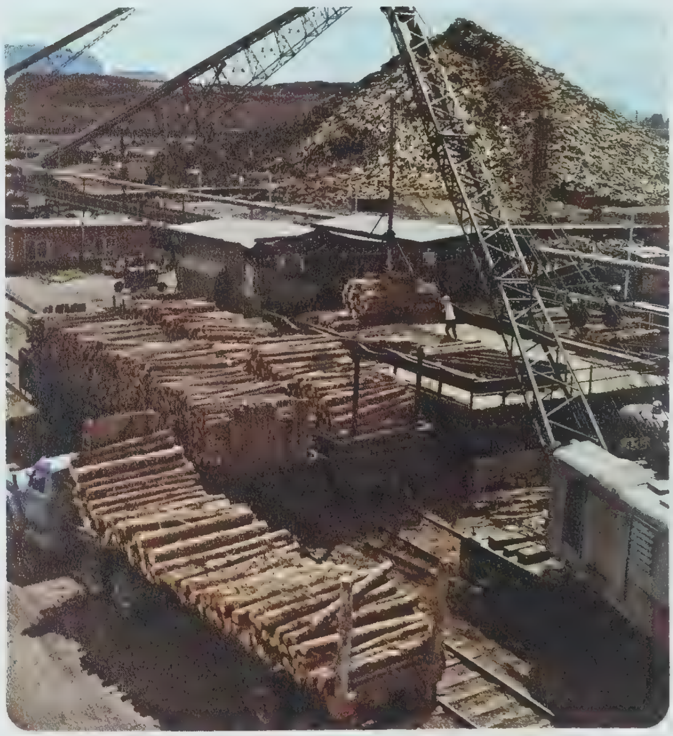
For further definitions and information we recommend publications issued by the Canadian Institute of Chartered Accountants and by The Investment Dealers' Association of Canada.

Pictures under this page

3 In the right background is the Tree Harvester of the first two pictures. The machine in the foreground is a Wheeled Skidder with hydraulic grapple. It is dragging tree-length logs which the Harvester has cut and dropped and will stack these alongside a road in a convenient skidway pile for later movement by trailer and truck.

4 Here a Front End Loader is taking tree-length logs from a roadside skidway pile, referred to in picture number three, and loading them onto a trailer. The trailer will be pulled by truck to a processing centre where a great machine called a Slasher will cut the logs into 8-foot lengths for transportation to our mill.

7 This picture shows a close-up of the Slasher's cradle, referred to in picture number six. Above the cradle is the grapple of the Hydraulic Crane filled with 8-foot logs which it has lifted from the cradle. The Crane will swing over to load these logs onto a waiting rail car or truck which will carry them to our mill.



8 Here the 8-foot logs have reached our mill by rail and truck and are unloaded by an Electric Crane. The Crane feeds them into an adjoining Slasher which cuts them into 4-foot lengths. These come out of the Slasher onto a moving rubber belt conveyor which carries them to a storage pile like the one in the background.

5 A loaded trailer, such as seen in picture number four, has arrived at a processing centre and a machine known as a Wheeled Front End Loader is pushing the trailer's tree-length logs off onto a pile alongside a Slasher, which can be seen on the far side of the trailer. What then takes place is shown in the next two pictures.

6 At the right a Slasher mounted Heel Boom Crane is taking tree-lengths from a processing pile and feeding them into the Slasher to be cut into 8-foot lengths. These will come out on the cradle at bottom left corner of the Slasher. The Hydraulic Crane alongside will pick them up and load them onto the rail car at far left.

9 This rubber belt conveyor is carrying 4-foot logs from the Slasher mentioned in picture number eight to the largest of our four log storage piles. This pile has a travelling Gantry Stacker, shown in the background. The Gantry moves on rails and can put over 100,000 cords into a pile 1,500 feet long, 350 feet wide, 40 feet high.

10 These logs, with bark removed, are in the final stage of forest to mill. They are being moved from a storage pile into our newsprint mill for grinding into groundwood pulp or to be cut into small chips for chemical processing into sulphite pulp. Other logs go to our new mill to be chipped and processed into bleached kraft pulp.

BOARD OF DIRECTORS

C. J. Carter *vice-president, Great Lakes Paper Company*	Fort William	1947
Ross Clarkson *honorary chairman, Royal Trust Company*	Montreal	1955
Wilbur C. Cochrane *president, Cochrane-Dunlop Hardware Ltd.*	Toronto	1942
R. A. Dunn *executive vice-president, Great Lakes Paper Company*	Fort William	1966
C. J. Warwick Fox *president, Great Lakes Paper Company*	Fort William	1953
Percy M. Fox *chairman, Great Lakes Paper Company*	Montreal	1952
C. J. Jeffery *vice-president, Great Lakes Paper Company*	Fort William	1947
Hon. Ray Lawson *chairman, Lawson & Jones Limited*	Oakville, Ontario	1936
L. S. Mackersy *vice-president and director, North American Life Assurance Company*	Toronto	1957
C. Blake McDowell *secretary, Knight Newspapers Inc.*	Akron, Ohio	1952
R. G. Meech, Q.C. *vice-president, Loblaw Groceterias Co. Ltd.*	Toronto	1936
M. C. G. Meighen *president, Canadian General Investments Ltd.*	Toronto	1947
K. A. Miners *vice-president, Great Lakes Paper Company*	Fort William	1948
B. H. Ridder, Jr. *vice-president and secretary, Northwest Publications Inc.*	St. Paul, Minnesota	1957
Murray D. Seeley *vice-president, Great Lakes Paper Company*	Fort William	1956
Carl P. Slane *chairman, Peoria Journal Star*	Peoria, Illinois	1953
Russ Stewart *vice-president, Field Enterprises Inc., publishers of Chicago Sun-Times and Chicago Daily News*	Chicago	1957
Jules R. Timmins *director, Hollinger Consolidated Gold Mines Ltd.*	Montreal	1956

Years denote beginning of connection with the company.

MANAGEMENT

Percy M. Fox, *chairman*	1952
C. J. Warwick Fox, *president & general manager*	1953
R. A. Dunn, *executive vice-president*	1966
K. A. Miners, *vice-president, finance*	1948
C. J. Jeffery, *vice-president, manufacturing*	1947
Murray D. Seeley, *vice-president, woodlands*	1956
C. J. Carter, *vice-president, engineering*	1947
C. R. Caddo, *secretary*	1929
C. R. Bowles, *treasurer & comptroller*	1964
D. D. Morrow, *assistant treasurer*	1964

NEWSPRINT SERVICES

Lake Superior Newsprint Co., Chicago, servicing of newsprint paper contracts: Bruce Fallows, *president;* W. D. Frost, *vice-president.*

SALE OF PULP

Lake Superior Pulp & Paper Inc., Chicago and New York, sale of kraft and sulphite: Bruce Fallows, *president;* R. L. Nash, *vice-president.*

AGENTS AND REGISTRAR

Our transfer agents are The Royal Trust Company, Toronto and Montreal, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto and Montreal.

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THE **GREAT LAKES PAPER COMPANY** LIMITED

Quarterly Report to the Shareholders

FIRST SIX MONTHS: 1966 vs 1965

NET PROFIT of $2.7 million in the first six months of 1966 showed an increase of 6.1 percent over the same period of 1965. These earnings amounted to 75 cents per share versus 71 cents in the first six months of 1965.

TOTAL SALES in the six months were $28.8 million versus $21.6 million a year ago, an increase of 33.2 percent. These totals in each case are before adding U. S. dollar exchange premium which gave us a profit of $2.0 million in the six months, an increase of $362,321 or 22.5 percent over the same months of 1965.

EARNINGS in the first half of 1966 have not kept pace with the increase in sales partly due to the increase in depreciation and interest charges of $612,000 and partly due to the wage settlement made last fall. These wage increases have reduced the operating profit for the first six months of 1966 by over $600,000.

NEWSPRINT SHIPMENTS in the period were 189,289 tons versus 154,212 tons in the first half of 1965, an increase of 22.7 percent. With the important addition of our new kraft pulp mill, pulp shipments were up 17,474 tons. Total shipments, newsprint plus pulp, were 214,415 tons, an increase of 52,551 tons or 32.5 percent.

Continued on page 4

SUMMARY OF RESULTS

All Figures Subject to Audit and Adjustment at Year-End

TONS SHIPPED TO CUSTOMERS: newsprint. . . . .
pulp. . . . .
total tons. . . . .

SALES, before costs of delivery to customers. . . . .

OPERATING PROFIT. . . . .
PROFIT from U.S. dollar exchange. . . . .

DEDUCT: BOND, DEBENTURE AND BANK INTEREST. . . . .
PROVISION FOR DEPRECIATION. . . . .

PROFIT BEFORE TAXES. . . . .
PROVISION FOR INCOME TAXES. . . . .

NET PROFIT: TOTAL AMOUNT. . . . .
PER SHARE. . . . .

WORKING CAPITAL at June 30th. . . . .
current assets less current liabilities. . . . .

FIXED ASSETS at June 30th. . . . .
value of mill, equipment, properties, etc.

SECOND QUARTER 3 Months: April, May, June		THE YEAR TO DATE 6 Months Ended June 30th		
1966	1965	1966	1965	
102,099	86,597	189,289	154,212	
21,825	4,021	25,126	7,652	
123,924	90,618	214,415	161,864	
$16,833,160	$12,091,366	$28,757,668	$21,584,776	up 33%
3,513,264	3,470,618	6,134,710	5,573,487	
1,134,170	908,364	1,973,544	1,611,223	
4,647,434	4,378,982	8,108,254	7,184,710	
391,906	194,484	574,793	387,779	
1,145,000	750,000	1,925,000	1,500,000	
1,536,906	944,484	2,499,793	1,887,779	
3,110,528	3,434,498	5,608,461	5,296,931	
1,610,000	1,786,000	2,910,000	2,754,000	
1,500,528	1,648,498	2,698,461	2,542,931	up 6%
$0.42	$0.46	$0.75	$0.71	
....	....	7,846,268	12,324,129	
....	....	111,477,834	84,872,857	

Continued from page 1

OUR KRAFT PULP MILL began operation in April and was producing high quality, fully bleached pulp by the end of that month. Operating costs were high, a situation usually encountered in the early months of operating a new mill. Test runs have already approached the mill's annual design capacity of 200,000 tons but production will be held to a lower level until the mill reaches maximum efficiency.

One function of the new mill is to provide us with semi-bleached kraft pulp for use in our production of newsprint paper. This use is already in operation with a noticeable improvement in the quality of our newsprint sheet and we expect further improvement as time goes on. The balance of our kraft pulp is in the form of fully bleached grades for sale to pulp customers. The marketing of this is being handled by Lake Superior Pulp & Paper Inc., of Chicago and New York, which deals with all our sales of wood pulp.

THE TRAVEL GUIDE folder enclosed with this report is one we are now giving to travellers who wish to use the hundreds of miles of roads we have built in our forest areas. The folder will explain itself and we hope it will interest you.

On behalf of the Board,
C. J. W. FOX, *president.*

FORT WILLIAM, ONTARIO, AUGUST 5TH, 1966.